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1 IN THE UNITED STATES DISTRICT COURT
2 FOR THE NORTHERN DISTRICT OF ALABAMA
2 SOUTHERN DIVISION

3

4 UNITED STATES OF AMERICA,

5 CR-03-BE-530-S

6 v. Birmingham, Alabama

7 RICHARD M. SCRUSHY, March 3, 2005

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Defendant.

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TRANSCRIPT OF TRIAL

12 BEFORE THE HONORABLE KARON O. BOWDRE
13 UNITED STATES DISTRICT JUDGE, and jury.

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15 VOLUME XXIV

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1 of years before to Integrated Health, because we
2 didn't want to be in that business.

3 So I wasn't so sure, and I think even
4 Mr. Scrushy wasn't so sure that that was
5 strategically the best move.

6 MR. LEACH: Objection, Your Honor, to
7 Mr. Scrushy's knowledge.

8 THE COURT: Sustained.

9 A. I'm sorry. At any rate, it was -- I did
10 not believe it was a strategic move for the
11 company, a good strategic move for the company.

12 So, I enlisted Bill McGahan, who was
13 our investment banker at that time, to assist me
14 in talking Mr. Scrushy out of doing the
15 transaction based on the fact that it was not a
16 good strategic fit. It didn't really fit with the
17 HealthSouth business.

18 Q. Tell us how -- how did you get Mr. McGahan
19 to help you speak with the defendant about this
20 transaction?

21 A. We were continuing to negotiate with
22 Mr. Ormand. And our price -- our stock price had
23 gone down, and their stock price had gone up, and
24 it was really not even making good sense in black
25 and white on paper.

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1 But Mr. Scrushy wanted to talk to me
2 about it. I got a call from Mr. Scrushy. He was
3 at his lake house, and he told me that he wanted
4 McGahan and I to come down to his lake house to
5 discuss whether or not we should do this.

6 Q. Did you and Mr. McGahan travel down to the
7 defendant's lake house?

8 A. Yes.

9 Q. Do you recall where his lake house is
10 located?

11 A. It's at Lake Martin.

12 Q. Do you recall when you and Mr. McGahan
13 traveled to Mr. Scrushy's lake house to talk with
14 him?

15 A. It was sometime in early June of 1999.

16 Q. Tell us how you and Mr. McGahan travel down
17 to meet with Mr. Scrushy?

18 A. Mr. McGahan was in New York that morning
19 when I got the call from Mr. Scrushy telling us to
20 come down and see him. So I met Mr. McGahan at
21 the airport, and then we took one of HealthSouth's
22 planes down to Lake Martin.

23 Q. Did you have any conversation with
24 Mr. McGahan while you were traveling from
25 Birmingham down to Lake Martin?

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1 A. Yes. I told Mr. McGahan that he had to
2 help me talk Mr. Scrushy out of this, because we
3 were not making our numbers. We were missing our
4 numbers by over three hundred million dollars at
5 that point or more. And I told him that, if we
6 did this transaction, that we would all go to
7 jail.

8 Q. Did you and Mr. McGahan meet with the
9 defendant to talk about the proposed merger with
10 Manocare?

11 A. Yes, sir, we did.

12 Q. Was there a conversation between you and
13 the defendant with Mr. McGahan being present?

14 A. Yes. And the conversation with Mr. McGahan
15 being present centered around the strategic issues
16 with the merger. Mr. McGahan was not about to
17 bring up the fraud with Mr. Scrushy.

18 MR. LEACH: Objection, Your Honor.

19 THE COURT: Sustained.

20 Q. Just tell us what you told the defendant
21 while Mr. McGahan was present and what the
22 defendant said to you during that conversation.

23 A. I told the defendant I didn't think we
24 needed to do the transaction based on the fact
25 that we would be getting back into the nursing

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1 home business, and I didn't think it was a good
2 strategic move for HealthSouth.

3 Q. What, if anything, did the defendant say
4 back to you, if you recall?

5 A. When Mr. McGahan was present or --

6 Q. While he was present first.

7 A. He continued to think it was a good
8 transaction, and he was continuing to want to go
9 forward with it.

10 Q. Did there come a time when Mr. McGahan left
11 the conversation?

12 A. Yes.

13 Q. Did you and Mr. Scrushy have additional
14 conversation without Mr. McGahan being present?

15 A. We did.

16 Q. Can you please tell us what you said and
17 what the defendant said when Mr. McGahan was not
18 present?

19 A. I told Mr. Scrushy that if we go through
20 with this transaction, that the fraud would be
21 exposed. And I said the "fraud" (indicating).
22 Never before had I used that word "fraud."

23 And Mr. Scrushy, at that point, realized
24 that we didn't need to do it if I felt like --

25 MR. LEACH: Objection to realized, Your

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1 Honor.

2 THE COURT: Sustained.

3 Q. After you told Mr. Scrushy that the fraud
4 would be exposed, did you all proceed with the
5 transaction?

6 A. No, sir.

7 Q. Did the defendant ask you any questions
8 after you told him that the fraud would be exposed
9 and the deal was not going to take place?

10 A. Mr. Scrushy, because of the fact that
11 McGahan was nearby, said, did you tell Bill, Bill
12 McGahan? And I said, yeah, I told him, but he
13 won't tell anybody because he has as much to lose
14 as we do.

15 Q. What were you talking about when you said
16 yeah, I told Mr. McGahan, but he won't say
17 anything?

18 A. I was talking about the fraud.

19 Q. Was there another alternative on the table
20 at the same time while you were considering
21 Manorcaren? Was HealthSouth considering doing
22 anything else?

23 A. Yes, sir. We had left on the table the
24 alternative to split the company into two pieces
25 that we were looking at back in 1998.